STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ILLINOIS POWER COMPANY	)	
	)	04-0476
Proposed General Increase	)	
in Natural Gas Rates	)	

BRIEF ON EXCEPTIONS OF BUSINESS ENERGY ALLIANCE AND RESOURCES, L.L.C.

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TABLE OF CONTENTS

BRIEF ON EXCEPTIONS OF BUSINESS ENERGY ALLIANCE AND RESOURCES, L.L.C.

I. Introduction

The Proposed Order of the Administrative Law Judge ("Proposed Order") goes some of the way toward recognizing the special circumstances of customers of Illinois Power Company ("IP") that use natural gas to dry grain. The grain dryers, represented in this proceeding by Business Energy Alliance and Resources, L.L.C. ("BEAR"), use gas primarily in the months of September and October. Therefore, they impose little if any transmission and distribution costs on Illinois Power Company ("IP"), which designs its system to meet its winter system peak. In other words, regardless of the grain dryers' level of use during September and October, IP would still design the same transmission and distribution system to meet its winter peak.

Prior to this rate case, IP recognized the benefit grain dryers contribute to its system by offering grain dryers the use of SC 67, which has rates lower than the other rates available to grain dryers, such as SC 63, SC 64 and SC 65. IP proposes to replace SC 67 and SC 68 (a similar rate available to asphalt producers) with a new SC 66, Seasonal Gas Service, which is described as a "seasonal use" rate designed for customers that do not use gas during IP's peak days.

BEAR has no objection to the replacement of SC 67 with SC 66. Nor, as noted in the Proposed Order, does BEAR object to the qualifications for use of SC 66 – a trigger based on usage on days where the temperature is predicted to fall below 25 degrees.

The Proposed Order, however, commits several errors when setting rates for SC 66. First, it accepts IP's failure to allocate revenue requirement to all classes in a

consistent manner. The Proposed Order accepts IP's proposal to calculate costs for SC 66 in one way and for all other classes in another way. The Proposed Order does so even though it acknowledges the deficiency of IP's calculation, and even though it suggests a different approach in IP's next rate case.

Second, the Proposed Order appears to make a mistake in setting the facilities charge for small volume SC 66 customers. Even though the Proposed Order states it is limiting the increase IP proposed for all SC 66 customers, the Proposed Order only reduced the rate for medium and large SC 66 customers. The Proposed Order appears to have accidentally used a figure for small volume customers that is higher than the rate proposed by IP.

II. IP Should Calculate the Allocation of Transmission and Distribution Costs Consistently for All Classes.

In its briefs in this proceeding, BEAR argued that IP improperly calculated the "average" demand component of the Average and Peak ("A&P") allocation of transmission and distribution costs for grain dryers and asphalt makers. For most customer classes, IP calculated daily average demand by dividing total annual use by 365. This is the obvious way to calculate an average annual usage value. Yet, IP calculated average demand for SC 67 by dividing total annual use by 61 and calculated average demand for SC 68 by dividing total annual use by 184. It then added the two resulting revenue allocations together to obtain a revenue allocation for SC 66. The Proposed Order accepted IP's methodology.

There are two problems with IP's methodology. First, it should not calculate the revenue allocation for SC 66 in a manner different from the calculation used for other rate classes. Second, IP inflated the allocation to SC 66 by calculating the allocations for

the discontinued SC 67 and 68 and then adding them together. The effect of IP's machinations is to allocate more to SC 66 under the average component than would be justified by SC 66's annual use. Another result is that switching from the A&E method to the A&P method raised the allocation to SC 66[1], even though the purpose of using the A&P method is to better reflect customers' use during the system peak and SC 66, by definition, will have zero peak demand. (See Lazare, Staff Ex. 6, p. 8 for a description of the purpose of the A&P method).

IP's explanation for the different treatment of SC 66 customers is that they do not use gas year round. According to IP, grain dryers use most of their annual gas during a 61 day period and asphalt makers use most of their gas during a 184 day period. The Proposed Order accepts this as rationale for IP's calculation.

The Commission should not allow IP to treat one rate class different from all others. While it is true that SC 66 customers' use is more concentrated than most rate classes, no rate class uses gas consistently every day, week or month of the year. For example, customers using gas for heating will use more on cold days than warm days and more in winter months than during summer months. Businesses may only operate five days per week or only during a particular season of the year. Schools may use no gas during the summer. While some of these customers' usage patterns may be more regular than SC 66 customers, it certainly is not the same every day of the year. If the Commission is going to adjust the Average demand of SC 66 to reflect customers' usage

[1] Page 55 of the Proposed Order shows that the revenue allocation for SC 66 for transmission is 1.41 percent under the A&E method and 1.53% under IP's version of the A&P method, while the distribution allocation was .49% under the A&E method is .53% under IP's version of the A&P method. These changes are reversed from what one would expect to happen for a rate class with high noncoincident peak usage but zero coincident peak usage.

patterns, it should do the same for all classes. The Proposed Order acknowledges that fact, stating:

> While the record of this case does not support BEAR's proposal, the Commission believes that conceptually, BEAR has raised an interesting issue. Further, the Commission notes that IP stated that the average component of the A&E and A&P method assumes that customers consume gas at a 100% load factor. (IP Reply Brief at 74) Clearly this is an unreasonable assumption for most customer classes. Thus, in the event IP proposes to use a denominator other than 365 days in the denominator of its T&D plant allocator in its next natural gas rate case for any group of customers, the Commission directs IP to address in its direct testimony the possibility of using denominators less than 365 days for classes other than the seasonal use class.
>
> Proposed Order at 67.

The Proposed Order recognizes it is not appropriate to allocate distribution capacity costs the way IP has done, but decides to leave this method in place until IP's next rate case. Until then, SC 66 would be the only rate class with an adjustment to the average demand component of the A&P method that reflects usage pattern. Furthermore, the adjustment for grain dryers is huge – by dividing annual use by 61 instead of 365, IP is effectively increasing its average demand by 600%. It is grossly unfair for the Proposed Order to accept such an extraordinary adjustment for one class while treating other classes as if they have a 100% load factor – an assumption the Proposed Order acknowledges is "unreasonable." Neither usage patterns nor load factors[2] should not have a role in calculating the Average component of the A&P method. But if the Commission truly believes it should consider usage patterns or load factors, it must do so for all classes, not just SC 66.

[2] Grain dryers have an extraordinarily high load factor when the calculation of load factor is based on a comparison of annual use to coincident peak use. This is the relevant computation when the subject is how much they use in off-peak periods compared to their peak use. Due to grain dryers' zero use during the system peak, their load factor is infinitely high. Thus, grain dryers are the **last** class that should have an adjustment to the denominator of the revenue allocation to reflect poor load factor.

If the Commission believes it is appropriate to redefine "average" for SC 66 and no other rate class, it should at the very least reject IP's calculation. IP first calculated the allocation for grain dryers and asphalt makers separately and then added the figures together. Such a piecemeal approach artificially inflates the allocation. It is also inconsistent with standard ratemaking, which allocates costs to rate classes, not subsets of rate classes. The Company's approach is identical to treating the residential class as two groups and then adding them together. The annual use of customers with only heating use would be divided by the number of days in the heating season and the annual use of the remaining customers would be divided by 365. If these two averages were added together, it would increase the allocation of costs to the residential class well beyond IP's current calculation.

A more extreme example would be to assume IP combined Class A, which uses 90 percent of its annual gas from June through August, with Class B, which uses 90 percent of its gas the rest of the year. This new combined class would have a very even annual usage pattern, yet IP's method for calculating SC 66's average demand in this case would result in the average demand of this new class being calculated by dividing Class A's annual use by 92, dividing Class B's use by 273 and then adding the totals. Such a calculation is clearly inappropriate.

The only proper approach would be to treat SC 66 as a single class, just as all other classes are treated as a single class. The SC 66 rate class uses gas from the beginning of the construction season through the end of the grain drying season. In other words, if there is justification for calculating the "average demand" of the new class in a different manner from other classes, the calculation should reflect the behavior of the new

class e.g. the total use should be divided by the number of days in which there is use by the class.

In fact, in IP's next rate case it will have to treat SC 66 as a single class because it will not be able to segregate customers using SC 66 for grain drying from those using it for the production of asphalt. IP will only know that SCC 66 customers used the majority of their gas from, say, March through November. Just as IP will not calculate the individual load factors of schools, park districts, ice cream shops, and commercial heating customers and then add the results to get the Average demand of SC 63 (small volume firm gas service), it will not calculate the load factors of grain dryers and asphalt makers and then add the results to get a SC 66 average demand. If it would be wrong to make such a calculation in the future, it is wrong to do it now.

Finally, the entire concept of adjusting Average demand for usage patterns lacks an intellectual basis. It is inconsistent with the theory of the A&P, which Mr. Lazar described as follows:

> The A&P recognizes the two key factors that drive investment in transmission and distribution plant. One factor is the need to meet peak demands, not just for individual classes but for the system as a whole. That is why coincident peak demands are used for one component of the allocator. Second, the allocator recognizes the role of year-round demands in shaping transmission and distribution investments through the average demand component.
>
> Staff Ex. 6.0 at 10.

Thus, the Average portion of the allocator is supposed to be determined by the annual volumes used by the different classes, so that costs are allocated partly on annual volumes. By definition, average daily use is annual volume divided by 365 days. Redefining the Average demand of two classes and then combining them makes no sense

and is not consistent with the purpose of the A&P method. The Commission should see IP's proposal for what it is: an end result adjustment that has no basis in economics or rate design. IP simply refuses to acknowledge the fact that grain dryers impose lower transmission and distribution costs on its system, so it manipulated calculation of "average" in a manner to allocate more costs to SC 66.

Proposed Language

Alternative 1 (reject IP's discriminatory treatment of SC 66 in its entirety)

Modify the second to the last paragraph of Section VII.A.7 on page 66 and 67 as follows and strike the last paragraph of this section on page 67:

> Having reviewed the record in its entirety, the Commission must agree with ~~reject~~ BEAR's proposal that average demand component of the A&P allocator use 365 days as the denominator for all customer classes. The Commission adopted the A&P allocator, in part, because it properly reflects the fact that one of the primary factors driving T&D plant investment is need to meet year round demand. Dividing annual use by 365 days accomplishes that goal. Furthermore, ~~T~~the Commission believes that because of the different usage patterns among customer classes, reducing the denominator for one class but not the others when ~~universally adopting 365 days as the denominator in~~ calculating the average demand component of the A&P allocator would be fundamentally inequitable and would diminish the effectiveness of the A&P method to properly allocate T&D plant costs.

Alternative 2 (Accept IP's separate treatment of SC 66 but modify its calculation)

Insert the following sentence at the end of the second to the last paragraph of Section VII.A.7 on page 67:

> The Commission rejects, however, IP's method of calculating the average demand component for SC 66. Rather than calculate the average demand for SC 67 and SC 68 separately and then adding the results, IP should calculate the average demand for SC 66 as a single class, using a denominator of 245.

III. The Commission Should Correct the Mistake Made In the Proposed Order In the Facilities Charge For Small Volume SC 66 Customers

The Proposed Order accepts the suggestion of BEAR that the Commission protect rate continuity by moderating the rate increase for facilities charges for SC 66. While BEAR believes that the figures recommended in the Proposed Order are still too high, it will not challenge that conclusion. One of the figures, however, appears to be a mistake. IP's proposed facilities charge for SC 66 and the facilities charges ordered in the Proposed Order are as follows:

Customer Size	IP	Proposed Order
SC 66 Small	$350	$375
SC 66 Medium	$850	$500
SC 66 Large	$1,800	$650

As can be seen, the Proposed Order decreases the rate for medium and large customers and raises it for small customers. Nothing in the Proposed Order indicates an intention to raise the facilities charge for any type of SC 66 customer above IP's requested amount. In fact, the Proposed Order states that IP's proposed rates "are not reasonable" and that it is "appropriate to limit the facilities charge for Small SC 66 customers." Proposed Order at 89. BEAR assumes that the Proposed Order intended to limit the facilities charges for all three types of SC 66 customers and that the facilities charge for small volume customers should have been a figure somewhere between the rates proposed by IP for SC 63 ($25 per month for Small Volume Standard and $90 per month for Small Volume Non-Standard) and the $350 per month proposed by IP for

small volume SC 66. In any event, the error should be corrected so that the stated intention of limiting the increase for small SC 66 customers can be implemented.

Proposed Language:

Section VII. F. 2.

Strike the figure $375 in the second to last line of the second paragraph of Section 2 on page 89 of the Proposed Order and insert the figure intended by the Administrative Law Judge.

IV. Conclusion

For the reasons stated above, the Commission make the modifications to the Proposed Order recommended by BEAR.

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CERTIFICATE OF SERVICE

The undersigned attorney hereby certifies that he caused copies of the attached Brief on Exceptions of Business Energy Alliance and Resources LLC be served on each of the persons on the attached Service List by e-mail on April 7, 2005.

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